

**LIBRARY OF CONGRESS TRUST FUND BOARD  
ANNUAL REPORT  
FOR THE FISCAL YEAR ENDING  
SEPTEMBER 30, 1998**

***INTRODUCTION***

The Library of Congress Trust Fund Board, established in 1925, accepts gifts (other than gifts for immediate disbursement) and oversees the investment of those gifts (trust funds) for the benefit of the Library's collections and services. The Board establishes investment policy, and the Library of Congress implements procedures to carry out that policy. The Board's investment policy necessarily varies depending upon the terms of the individual trust funds and the restrictions on principal and earnings. Also, over the years, the Board has modified its investment policy as permitted to maximize the returns on the funds' principal.

During fiscal year 1998, the investments were primarily in the following categories:

- . Permanent Loan Pool with the U.S. Treasury
- . Long and Short Term U.S. Treasury Securities Pool
- . Growth and Income Pool (Private Sector Money Market and Mutual Funds)

Annually, the Library of Congress reports on the financial position of the Trust Funds. This annual report for fiscal year 1998 is comprised of four sections:

1. Overview - Background information on the Trust Fund Board and discussion of the financial information
2. Financial Statements - Combined Financial Statements and accompanying notes
3. Supplemental Schedules - Financial information relating to each trust fund
4. Other Supplemental Financial Information - Financial data in graphics.

***1. OVERVIEW***

**The Library of Congress Trust Fund Board**

The Library of Congress Trust Fund Board Act of March 3, 1925, as amended (2 U.S.C. 154-163), created the Library of Congress Trust Fund Board,

a quasi-corporation with perpetual succession. The Board has the usual powers of trustees, including the authority to:

- ▶ "accept, receive, hold, and administer such gifts, bequests, or devises of property for the benefit of, or in connection with the Library, its collections, or its service, as may be approved by the Board and by the Joint Committee on the Library;"
- ▶ "invest, reinvest, or retain investments" after being receipted for by the Secretary of the Treasury;
- ▶ deposit trust funds "with the Treasurer of the United States as a permanent loan to the United States Treasury, and the Treasurer shall thereafter credit such deposit with interest at a rate which is the higher of the rate of 4 per cent per annum or a rate which is 0.25 percentage points less than a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding long-term marketable obligations of the United States;" and
- ▶ "adopt rules and regulations in regard to its procedure and the conduct of its business."

Public Law 102-246, approved February 18, 1992, expanded the size of the Trust Fund Board from five members to thirteen members. In addition to three ex-officio individuals, Board membership consists of two appointed by the President, four appointed by the House of Representatives, and four appointed by the Senate. As of September 30, 1998, eleven of the thirteen Board positions were filled.

A. Ex-Officio Members

The Honorable William M. Thomas, Representative from California, Chairman,  
Joint Committee on the Library

Mr. Robert E. Rubin, Secretary of the Treasury

Dr. James H. Billington, Librarian of Congress and Chairman, Library of  
Congress Trust Fund Board

B. Presidential Appointees

Ms. Patricia Duff (term expires August 2000)  
Vacant

C. Senate Appointees

Mrs. Adele Hall (term expires June 2000)  
Mr. John W. Kluge (term expires March 2003)  
Ms. Julie Finley (term expires June 2001)  
Mr. Bernard Rapoport (term expires December 2001)

D. House of Representatives Appointees

Mr. Edwin L. Cox (term expires March 1999)  
Mr. Wayne L. Berman (term expires December 2001)  
Mr. Donald G. Jones (term expires December 2003)  
Vacant

On March 16, 1998, John W. Kluge, of New York was appointed member of the Library of Congress Trust Fund Board, for a term of 5 years. On December 23, 1998, Donald G. Jones, of Spirit Enterprise was appointed member of the Library of Congress Trust Fund Board, for a term of 5 years.

During fiscal year 1998, the Library of Congress Trust Fund Board approved the following actions:

- A resolution was approved in April 1998 to accept responsibility to invest gift funds of the Library of Congress in accordance with the Board's Investment Policy. On May 11, 1998, the Library of Congress invested \$5.3 million of gift funds in Treasury securities.
- A resolution was approved in April 1998 to establish one additional investment option (Mutual Fund) within the Library's Growth and Income Pool. On April 30, 1998, the Library of Congress invested \$1.375 million in the Robertson Stephens-Emerging Growth Fund.

At the Trust Fund Board meeting on September 24, 1998, the following resolutions were approved:

- A resolution to ratify and reaffirm the poll votes for the following: (1) establish the National Digital Library Trust Fund; (2) establish the Hispanic Division Trust Fund; (3) approve the investment of Library of Congress gift funds; (4) include the Robertson Stephen - The Emerging Growth Fund as an investment option available to the Library of Congress Trust Fund Board for investment within the Growth and Income Pool; (5) establish the Bob Hope Trust Fund; (6) establish the Robert Mann Trust Fund; (7) establish the Paul Rudolph Trust Fund; and (8) return the total bequest, including any accrued interest, from the Estate of Eric. F.

Goldman to establish the Joanna Jackson Goldman Memorial Lecture Endowment Fund to the executors of the estate and to dissolve the fund.

- A resolution to specify the minimum amount necessary to establish a trust fund as \$25,000.
- A resolution to continue maintenance of a brokerage account with the current brokerage firm of Dean Witter Reynolds, Inc. for the deposit and sale of stock gifts.
- A resolution to accept a gift of \$5,000 from Mr. Thomas B. Inglis, Jr. to establish the Harper-Inglis Memorial Trust Fund for Preservation at the Library of Congress along with the pledge of an annual gift of \$10,000 to be used to implement the program immediately and a pledge of a charitable bequest of not less than \$350,000 to establish a permanent endowment to be used for the same purposes. (Approved by the Joint Committee on the Library on October 6, 1998.)
- A resolution to accept an initial gift of \$10,000 from Mr. Edwin L. Cox, through the Ed Cox Foundation, toward his \$1 million pledge to establish the Edwin L. Cox American Legacy Trust Fund. (Approved by the Joint Committee on the Library on October 6, 1998.)
- A resolution to appoint Mr. Bernard Rapoport to the Trust Fund Board's Investment Committee.
- A resolution to clarify the investment instructions for funds accepted by the Trust Fund Board prior to February 26, 1997.
- A resolution to seek an amendment to the Library of Congress Trust Fund Board Act of 1925, as amended, 2 U.S.C. 154 to decrease the number of members necessary to constitute a quorum from "nine" to "seven" and, upon enactment of such legislation, to adopt the amendment to Article II, Section 4 of the Library of Congress Trust Fund Board Bylaws, which decreases the number of members necessary to constitute a quorum from nine to seven.
- A resolution to seek an amendment to the Library of Congress Trust Fund Board Act of 1925, as amended, 2 U.S.C. 154, et seq., which will authorize the Chairman of the Library of Congress Trust Fund Board to extend temporarily the appointment of an appointive board member whose term has expired and to allow the board member serving on a temporary extension to remain a full member of the Board with voting rights.
- Three bylaw amendments were approved to (1) establish a date for the annual meeting of the Library of Congress Trust Fund Board (the first Wednesday in

March or such other times as may be deemed appropriate by the Chairman); (2) decrease the number of Board members necessary to constitute a quorum from nine to seven pending the enactment of the necessary amendment to the Library of Congress Trust Fund Board Act of 1925; and (3) add of a provision regarding disclosure of potential conflicts of interest and mandatory recusal from participation in Board matters where such conflicts exist.

### **Investment Policy**

From the inception of the TFB until 1937, the Board invested in a variety of corporate bonds and, to a lesser extent, common stocks. The Permanent Loan with the Treasury, which was established by the Congress in 1912 specifically for the Hubbard Fund, was an option for all gifts accepted by the Board. However, at first, it was used only occasionally because it offered a lower return than other investments. Beginning in 1937, the Board began moving the funds to the Permanent Loan because its guaranteed rate of 4 percent had become more attractive and provided a predictable amount of income to ensure the continuity of the programs the funds supported. In 1962, the Congress increased the deposit limit on the Permanent Loan to \$10 million dollars, and the Board's investment strategy was to place most new trust funds in the Permanent Loan. In 1974, the Board authorized the investment of unexpended income from the funds in short-term U.S. Treasury securities. In 1975, to increase the returns, the Board authorized investment in a long-term Treasury Bond for funds not specifically required to be in the Permanent Loan.

In 1976, the fixed statutory rate on the Permanent Loan was amended by an Act of Congress (Public Law 94-289) to a variable long-term rate set by the Secretary of Treasury with a floor of 4 percent. Because the rate retained a guaranteed minimum of 4 percent, a .25 percent reduction from the long-term Treasury rate was put into the law.

During the 1990's, trust funds have been invested in one of four ways:

- . The Permanent Loan to the U.S. Treasury
- . Long-term U.S. Treasury Bond, 8.5 percent, maturity date May 15, 1999 (Bond was called in May 1994.)
- . Short-term U.S. Treasury bills and notes
- . Stocks, bonds, and other instruments held in trust by a private sector investment management company.

In 1993, the Board, as recommended in an Investment Management Paper prepared by the Library's Financial Services Directorate and dated October 1992, approved three changes

to improve the return on the trust fund investments:

- . the investment of obligated funds;
- . the creation of investment pools to be maintained through the use of a computer system; and
- . relaxation of the restrictions requiring the Madison, Development and Gershwin funds to invest only in short-term Government securities.

Also, in 1993, the Library implemented an investment management system (IMS) that provided accounting for individual trust funds in a pooled environment permitting the creation of a Treasury investment pool for better investment returns. The Board's decision to permit investment pools, the investing of obligated funds, and the investing in longer-term securities substantially increased the returns on the funds.

The Permanent Loan continues to be an attractive investment because funds earn a long-term interest rate whether or not the funds are invested on a long-term basis. Also, because the Permanent Loan is a par value investment, there is no risk of loss to principal if interest rates rise significantly. During fiscal year 1998, investment in the Permanent Loan was maintained at or near the ceiling.

In a meeting in February 1997, the Board approved a resolution to implement and use a total return investment methodology as part of the Board's investment policy for growth and income investments and to adopt an investment policy which provides operational guidance to Trust Fund Board members and Library of Congress Staff involved in the management and development of Library of Congress Trust Funds. The overall objectives of the Trust Fund Board's investment policy are to support trust fund activities by: (1) providing flexibility to have either a stable, growing stream of payouts (from income and capital appreciation) for current and future expenditures or, irregular payouts necessary for certain program requirements; (2) providing for the liquidity of investments to make payouts; and (3) maintaining the "purchasing power" of endowment trust funds. The Library encourages donors to include language in the gift instrument that authorizes the Trust Fund Board to invest the principal in accordance with the Board's investment policy.

## **Discussion and Analysis of Financial Information**

### **1. Financial Reporting Standards**

The Trust Funds Board's financial statements have been prepared to conform with the requirements of Statements of Financial Accounting Standards (SFAS) number 116 and 117. These statements provide for the accounting treatment for contributions and for the form and content of financial statements for not-for-profit organizations.

Permanently restricted net assets result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. Temporarily restricted net assets result from donor-imposed restrictions that permit the Fund to use or expend the assets after the restriction has been satisfied.

Three exceptions to the standards cited above are as follows: (1) the activity associated with the particular type of net asset is not detailed in the Statement of Activities; (2) the Unrealized Loss on Investment is reported as a component of equity instead of being an element of income or loss; and (3) A Statement of Cash Flows is not presented.

## **2. Statement of Financial Position**

During 1998, the Trust Fund Board's assets increased from \$53.4 million to \$65.9 million. The increase is attributed primarily to gifts and pledges from corporate and individual donors to support several major funds -- James Madison National Council, National Digital Library (NDL), Bob Hope, James Billington, and Edwin L. Cox American Legacy.

As of September 30, 1998, there were 87 separate Library of Congress Trust funds (including the G. M. Hubbard Fund) with a combined total net assets of \$64.7 million. (There were 16 additional funds maintained for reporting requirements because several Funds have multiple specific purposes.) The Trust Fund Board also received a 50 percent share (\$105,448) of the annual income of the Archer M. Huntington Fund (market value of \$5,591,618) held and managed by the Bank of New York as well as income from a trust established by Leonore (Mrs. Ira) Gershwins.

## **3. Statement of Activities**

The Trust Fund Board's revenues totaled \$23.6 million for fiscal year 1998 including \$15.7 million in new gifts and bequests, \$4.8 million of donation pledges, \$127,821 of miscellaneous revenue, and \$2.8 million in investment income. An unrealized loss \$2,079,819 was recognized on stock mutual funds held during fiscal year 1998.

After subtracting trust fund expenses of \$9.5 million and transfers to gift funds \$172,588, the operating change was \$13.9 million for fiscal year 1998. Total expenses increased 10.4 percent. Four funds -- the James Madison National Council, the National Digital Library, the Whittall, and the McKim -- accounted for \$7.8 million or 83 percent of all expenses.

Major contributions (including pledges) to the Trust Fund Board during fiscal year 1998 were:

- ▶ National Digital Library (NDL) Trust Funds - \$12,535,605
  - National Digital Library - \$12,477,555
  - Ameritech National Digital Library - \$58,050
- ▶ Bob Hope Trust Fund - \$3,665,370
- ▶ James Madison National Council Fund - \$1,546,349
- ▶ James Billington Trust Fund - \$1,040,000
- ▶ Edwin L. Cox American Legacy Trust Fund - \$818,433  
(Discounted present value of \$1 million pledge)
- ▶ Carolyn Royall Just - \$253,412
- ▶ Arthur H. Dadian - \$233,000

During fiscal year 1998, the TFB accepted three new trust funds: Bob Hope Trust Fund, Paul Rudolph Trust Fund, and Robert Mann Chamber Music. The Jones International Global Library Trust Fund was closed during fiscal year 1998.

#### **4. Financial Information by Fund**

Each trust fund is considered a separate entity and supplemental schedules in Section 3 present the financial position and results of operations for each fund, as well as budgetary fund balance data for restricted, obligated, and available funds.

The Statement of Financial Position by Fund, Schedule A, presents the net assets by Fund, where they are invested and the liabilities for each fund as of the end of the fiscal year 1998. Schedule B presents the restricted and unrestricted status and the amounts obligated and available at the end of fiscal year 1998. Schedule C is a detailed listing of the Funds invested in the permanent loan with the U. S. Treasury at September 30, 1998, and the increases and decreases in the balances during the fiscal year 1998.

The Statement of Activities by Fund, Schedule D, presents the fiscal year 1998 excess revenues over expenses and transfers in detail for each Fund. Schedule E presents the revenues by category for each Fund. Schedule F is the expenses for each Fund.